Banking

Steady Fundamentals With Capital Management Upside

OVERWEIGHT
(Maintained)

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Highlights

- The banking sector's Nov 25 stats remained resilient despite macro headwinds. Loan growth was at 5.2%, GIL ratio near historical lows and liquidity stayed healthy.
- We expect sector earnings to grow 3%/5% in 2025/26 respectively. Earnings resilience is underpinned by an around 5% loan growth, stable credit costs, stable NIM in 2026, and potential non-interest income upside.
- Maintain OVERWEIGHT. We remain constructive on the sector. Valuations are still attractive, trading at only 0.5SD above the mean despite potential upside from capital management initiatives. The sector yield of 5.5% remains compelling, with scope for upside surprise

Analysis

- **Loan growth inched downwards to 5.2% in Nov 25 (Oct 25: 5.4%).** Business loans moderated to 5.0% (Oct 25: 5.2%), while household loans remained stable at 5.4% (Oct 25: 5.4%) anchored by mortgages (+6.0% yoy) while auto loans dipped slightly to 6.6% (Oct 25: 6.7%).
- **We maintain our 2025 loan growth forecast at 5-6%** (1.4x loans-to-GDP, within the 1.0-1.7x historical range). For 2026, we project 5.0-5.5% growth amid banks' margin discipline. Loan approvals and applications rose 9.3% and 11.7% yoy in Nov 25 vs a contraction in Oct 25.
- **Deposit growth moderated to 2.7% yoy in Nov 25 (Sep 25: +3.7%),** as both fixed deposit and CASA deposit growth moderated. However, CASA growth remained respectable at 5% yoy. The loan-to-deposit ratio edged upwards to 90% (Oct 25: 89.5%). Overall liquidity remains healthy, with banks retaining flexibility to tap the bond market for cheaper funding compared with costly wholesale deposits.
- **The GIL ratio remained stable at 1.40% in Nov 25 (Oct 25: 1.39%)** and near the record low of 1.38%. With sector loan loss coverage at 90% (vs pre-pandemic's 80%) and GIL at historical lows, credit costs are expected to remain stable at around 17bp.

Valuation/Recommendation

- **Maintain OVERWEIGHT.** We remain constructive on the sector. Despite recent outperformance vs the KLCI and valuations rising to 0.5SD above the mean (1.17x PBV), we see further upside driven by capital management initiatives. The sector yield of 5.5% remains compelling, with potential for upside surprise. Following target price revisions for selected banks, we now value the sector at +1.0SD to its historical PBV, reflecting resilient earnings, NIM recovery and capital management upside.
- Catalysts include stronger capital management and NIM recovery. Its large-cap liquidity positions it to benefit from emerging market fund inflows amid Fed rate cuts. NIM recovery after OPR cuts and resilient provision buffers should drive a 2026 earnings rebound (5% vs 2025: 3%).
- **Top sector picks.** Our BUY list blends high-beta names with attractively valued banks. Reflecting a stronger risk-on stance, we have included two high-beta picks – CIMB and RHB, while maintaining conviction in Public Bank and Hong Leong Bank, which continue to trade at -1SD below historical mean P/B. Additionally, all of the above picks are in a position to actively pursue capital management initiatives, in our view.

Segmental Rating

Segment	Rating
Bank	OVERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Public Bank	PBK MK	BUY	4.54	5.25
CIMB Bank	CIMB MK	BUY	8.25	8.76
Hong Leong Bank	HLBK MK	BUY	22.14	25.15
RHB BANK	RHB MK	BUY	7.71	8.34

Source: Bloomberg, UOB Kay Hian

Banks' Share Price Performance

Company	Price (RM)	Yoy % chg
RHB Bank	7.71	19.0
AMMB	6.5	18.6
HL Bank	22.14	7.7
Alliance Bank	5.05	7.1
HLFG	19.06	3.0
Maybank	10.48	2.3
CIMB Group	8.25	1.5
Public Bank	4.54	(0.4)
Bank Islam	2.29	(7.3)
Affin Bank	2.35	(14.8)

Source: Bloomberg, UOB Kay Hian

Summary Of Banking Data

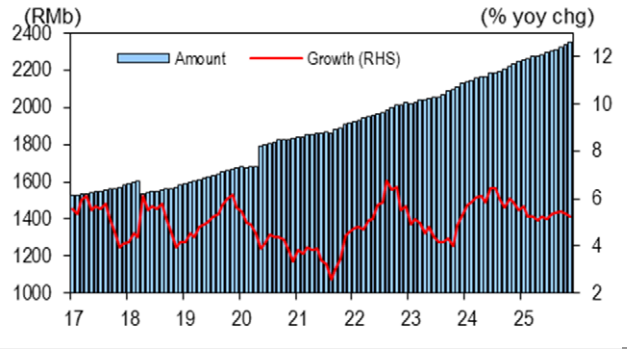
	yoy % chg		
	Sep-25	Oct-25	Nov-25
Loan Outstanding	5.5	5.4	5.2
- Business	5.5	5.2	5.0
- Household	5.5	5.4	5.4
Loan Applied	(0.0)	(2.0)	11.7
- Business	(4.3)	(8.5)	21.9
- Household	4.0	4.4	2.7
Loan Approved	4.2	(2.3)	9.3
- Business	1.6	(8.2)	13.4
- Household	7.8	5.7	4.1
Loan Disbursed	(7.2)	(3.4)	7.4
- Business	(9.0)	(5.6)	(12.9)
- Household	(0.4)	5.0	2.3
Loan Repaid	(7.1)	(6.7)	(11.6)
- Business	(10.2)	(9.9)	(15.2)
- Household	4.9	5.7	3.0
Impaired Loans	(3.7)	(3.8)	(2.2)
- Business	(5.3)	(6.8)	(5.0)
- Household	(1.6)	0.0	1.3

Source: BNM

Sector Catalyst/Risk

- **Catalysts.** Non-interest income tailwinds, potential capital management upside, beneficiary of emerging market fund flow from narrowing Fed fund rate-OPR differential, and NIM recovery in 2026.
- **Risks.** Key risks to our sector view include sharper-than-expected spillover effects from US tariff-driven headwinds that could raise provisioning needs, and potential surprise OPR cuts that may deepen NIM compression. However, our base-case assumption is for no further OPR cuts in 2026.

Total Outstanding Loans



Source: BNM

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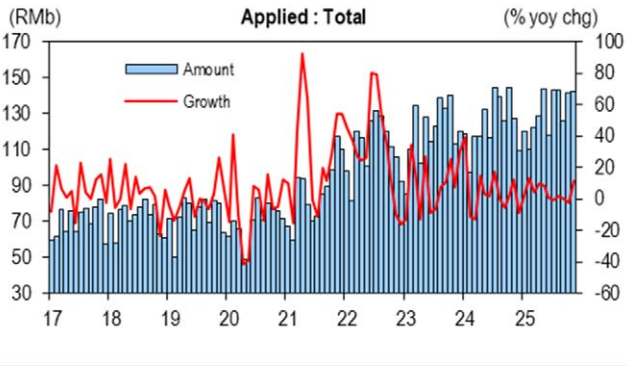
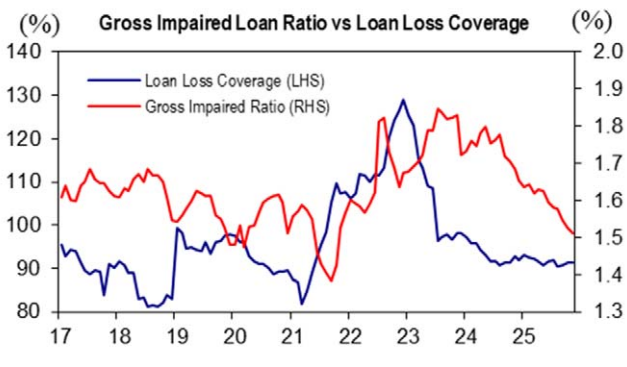
Total Loan Applications



Source: BNM

- Loan approvals and applications rose 9.3% and 11.7% yoy in Nov 25 vs a contraction in Oct 25.
- Loan approval and application growth recovered, underpinned by stronger household and business loan approvals and applications.

Net Impaired Loan Ratio Vs Loan-Loss Coverage



Source: BNM

- The GIL ratio remained stable at 1.40% in Nov 25 (Oct 25: 1.39%) and was a near record low of 1.38%.

Peer Comparison

Company	Ticker	Rec	Price 31 Dec 25 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	PE 2024A (x)	PE 2025E (x)	PE 2026E (x)	Yield 2025E (%)	ROE 2025E (%)	Market Cap. (US$m)	Price/ NAV ps (x)
Public Bank	PBK MK	BUY	4.54	5.25	15.6	Dec-24	12.4	12.1	11.4	5.0	12.3	20,982	1.5
CIMB Group	CIMB MK	BUY	8.25	8.76	6.2	Dec-24	11.5	11.4	10.7	5.7	11.0	21,197	1.2
HL Bank	HLBK MK	BUY	22.14	25.15	13.6	Jun-25	11.0	10.8	9.7	4.3	10.9	11,427	1.2
RHB Bank	RHBBANK MK	BUY	7.71	8.34	8.2	Dec-24	10.8	10.6	10.0	6.2	9.5	8,007	1.0
HLFG	HLFG MK	BUY	19.06	21.56	13.1	Jun-25	7.2	7.0	6.7	3.8	9.7	5,197	0.7
AMMB	AMM MK	HOLD	6.50	6.55	0.8	Mar-25	9.8	10.6	10.0	5.7	9.4	5,118	1.0
Maybank	MAY MK	HOLD	10.48	10.52	0.4	Dec-24	11.7	11.5	11.2	6.5	10.6	30,145	1.2
Alliance Bank	ABMB MK	HOLD	5.05	4.84	(4.2)	Mar-25	10.5	9.8	9.3	4.6	9.8	2,080	1.0
Bank Islam	BIMB MK	HOLD	2.29	2.45	7.0	Dec-24	8.3	8.4	9.2	6.0	7.1	1,236	0.6
Affin Bank	ABANK MK	HOLD	2.35	2.60	10.6	Dec-24	11.2	9.9	8.7	3.0	4.9	1,418	0.5

Source: UOB Kay Hian

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